Fleet Vehicles Agency

A Special Operating Agency within
Manitoba Infrastructure and Transportation

2006/07
Annual Report

FLEET
VEHICLES AGENCY

REPORT FOR THE YEAR ENDED MARCH 31, 2007

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Fleet Vehicles Agency is a Special Operating Agency
within Manitoba Infrastructure and Transportation

Letter from the Minister

MINISTER OF INFRASTRUCTURE
AND TRANSPORTATION

June 25, 2007

The Honourable John Harvard
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg MB R3C 0V8

May It Please Your Honour:

I have the privilege and pleasure of presenting, for Your Honour's information, the Fleet Vehicles Agency (*FLEET*) Annual Report for the year ended March 31, 2007.

This Report marks the completion of *FLEET*'s 73rd year of operations within the provincial framework, the first 58 of which were in a branch format, with *FLEET* known during the majority of that period as the Central Provincial Garage.

When *FLEET* was established as a Special Operating Agency (SOA) in 1992, it was the flagship for SOAs in Canada at the provincial level. During the 15 years between then and now, it has become a model for other agencies within the province and for alternative service delivery across the country.

FLEET's operations and results during 2006/07 once again exhibit a performance level that is in line with, or in excess of, the expectations of all of its stakeholders.

Respectfully submitted,

R Lemieux

Ron Lemieux
Minister Responsible for
Fleet Vehicles Agency

Letter from the Associate Deputy Minister

Manitoba

Infrastructure and Transportation
Associate Deputy Minister's office
300 - 215 Garry
Winnipeg MB R3C 3Z1
T 204-945-3887 F 204-945-1857

June 25, 2007

Honourable Ron Lemieux
Minister Responsible for Fleet Vehicles Agency
Manitoba Infrastructure and Transportation
Room 203, Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Lemieux

I am very pleased to submit for your review and consideration the Annual Report of Fleet Vehicles Agency (*FLEET*) for the year ended March 31, 2007.

At year end, the fleet included 513 units that are classified as Alternate Fuel vehicles. Of that number, 32 are hybrid-electric vehicles, 315 are E85s that run on regular gasoline, or on a combination of gasoline and up to 85% ethanol, and the remainder are diesel (which includes 157 ambulances). It is *FLEET's* intention to explore opportunities to continue "greening" the provincial fleet, and to promote the use of alternate fuel vehicles wherever they are practical for the job applications required by them.

On behalf of departmental management, I would like to thank *FLEET's* management and staff for their obvious commitment and dedication. We are all very pleased with the Agency's success over its 15 years as a Special Operating Agency.

Respectfully submitted,

Paul Rochon

Paul Rochon
Chairperson of the
Fleet Vehicles Agency Advisory Board

Manitoba
spirited energy

Chief Operating Officer's Message

FLEET
VEHICLES AGENCY

626 Henry Avenue
Winnipeg MB R3A 1P7
Tel (204) 945-0275 Fax (204) 957-1109

June 25, 2007

To the Many Stakeholders of Fleet Vehicles Agency (*FLEET*)

Although new to *FLEET* in January 2007, I am confident that my 34 years at Manitoba Hydro will enable me, and the Agency, to continue to provide the excellent fleet management services that *FLEET*'s provincial and other customers have come to expect.

As a newcomer to *FLEET*, I would like to share a couple of my first impressions during the few months I've been on the job:

> Keys™ is an asset management software package that, without question, is the most important tool in the Agency's fleet management system. Testamentary support for this statement is evidenced by the recent licensing and implementation of Keys™ by the Yukon Territory and the Mechanical Equipment Services Branch of our own Department. Other departments within the Province have also expressed serious interest in this software package for use within their programs.
>
> *FLEET* continues to focus on environmental issues being addressed by the Province. Efforts during the 2006/07 year include the addition of 12 hybrid-electric and 125 E85 vehicles, significantly increasing the complement of alternative fuel vehicles that are now in the fleet. The cash rebate programs announced by both the Province and the Federal government during the fourth quarter of 2006/07 may assist in providing an even greater impetus to our customers to purchase additional fuel-efficient or low emission vehicles in 2007/08 and future years.

Although my tenure at *FLEET* has only been a few months, I am impressed with the overall operation of the Agency. It is run in a manner that is, for the most part, typical of fleets throughout North America. What's special, however, are the pains taken by *FLEET* to continuously evaluate its policies and procedures, ensuring in the process that our numerous stakeholders, partners and customers receive the information and services they expect from the Agency. I wouldn't want it any other way.

A W. Franchuk

Al Franchuk
Chief Operating Officer

Profile and Direction of Fleet Vehicles Agency

Fleet Vehicles Agency (*FLEET*) has one of the larger single fleets of vehicles in Manitoba and, as an agency within Manitoba Infrastructure and Transportation, its main clients are the departments, agencies and crown corporations of the provincial government. As a supplier of complete vehicle and equipment management services, *FLEET* is, however, exploring opportunities to provide services to broader public sector organizations throughout the province.

The fleet currently consists of more than 2,900 units including trucks (56%), vans (26%), sedans (12%), ambulances (5%) and attachments (1%) operating from locations throughout the province. Annual distance travelled by the fleet approximates 58 million kilometres and annual fuel consumption for vehicles owned and managed now exceeds 10 million litres.

FLEET assumed organizational responsibility for Radio Services as of April 1, 2003, with that division's technicians essentially responsible for the servicing of existing radio base stations in areas where cellular phone service is not currently available, and for the evaluation, installation, repair and maintenance of two-way radios used by its provincial and other clients in those areas.

FLEET's Mission and Vision statements are reviewed regularly to ensure that they portray what management thinks the Agency's main reason for being is, and where management thinks the Agency is, or should be, going.

Mission Statement

"We are committed to provide our clients with a complete range of quality fleet management services to assist in the efficient delivery of public programs."

In addition to Mission and Vision statements, the *FLEET* management has identified certain factors that it feels are important to the continuing success of the Agency. Traditionally, the goals, objectives and strategies that are presented in each year's Business Plan are designed to move *FLEET* in a constant direction towards the achievement of these factors. The critical success factors developed for 2006/07 and the Agency's results in addressing each factor's related goals and objectives are discussed in this Report in the section "Operating Objectives and Results."

As the management and staff at *FLEET* continue to work towards achieving the Agency's mission and vision, their actions and working relationships will also be guided by, and reflect, the following important values:

- *Satisfy and exceed stakeholder expectations,*
- *Provide dependable and responsive service at competitive prices,*
- *Promote open communication and teamwork,*
- *Encourage individual learning, growth and achievement,*
- *Provide a safe work environment for all employees, and*
- *Eliminate or minimize risks to the environment.*

Vision Statement

"To provide all vehicle and equipment management services to the broader public sector."

Products and Services

Over the past 73 years, *FLEET* has developed a range of products and services to meet the needs of its provincial government clients. Services fall into three main groups: Vehicle and Equipment Services, Fleet Management Services, and Radio Services.

Vehicle Services include leases, long-term rentals, short-term (daily) rentals, and vehicle insurance and registration. Fleet Management Services cover a whole range of services including a *FLEET* credit card for fuel purchases, repair authorizations, a preventive maintenance program, an invoice payment service, a taxable benefit program, and a complete history of cost, maintenance and distance for each vehicle. Together, these two groups of services constitute the vehicle Full Service package recommended by *FLEET*. Since the start of the 2003/04 year, *FLEET* has also offered the services of its Radio Services division. This group's technicians install, maintain and repair two-way radios, and service existing radio base stations and remote monitoring devices throughout the province.

FLEET's employees provide complete fleet administration support and vehicle maintenance to clients from a central Winnipeg administration office and full service repair facility. Throughout 2006/07, the Agency's staff used the valuable information collected and stored by Keys™, the Agency's Fleet Management Information System, to assist customers in analyzing aspects of their vehicle costs and to provide detailed billing data tailored to each customer's specific needs.

Vehicles currently available range from compact sedans and half ton trucks to full size vans and ambulances. Client specifications determine the requirements for vehicles ordered and the flexible lease terms that are arranged.

The average age of the fleet is currently 3.7 years, which is greater than the Agency's private sector competitors but comparable to other public sector fleet operations. The vehicle replacement program maximizes fleet discounts on vehicle purchases, with those discounts reflected through vehicle lease rates that are offered. Although the Agency can recommend optimal vehicle replacement, it is ultimately the clients' decisions when to replace their vehicles, and this is often impacted by funding limitations.

Costs arising from the acquisition and operation of a vehicle are charged monthly to the Agency's customers through rent (usually fixed for the term of the lease) and variable (based on kilometres driven) rate structures. Centralized payments of all vehicle operating and administrative costs, including repair and fuel bills, eliminate the administrative task for customers and allow the Agency to take advantage of discounts and volume rebates.

The repair facility's qualified personnel provide regular servicing, repairs, parts and body shop maintenance. The garage is an accredited Private and Commercial Vehicle Inspection Centre. As such, its staff can inspect all types of vehicles including medium and heavy duty trucks, school and transit buses, ambulances, and air brake equipped vehicles. The body shop is qualified by Manitoba Public Insurance as an accredited Autopac autobody facility.

Although it remains *FLEET*'s intention to concentrate on further development within departments and agencies of the provincial government and to make further inroads with provincial crown corporations, its vision since 1992 has been to advance new market opportunities and services on a limited basis to the broader public sector within Manitoba. Management's current objective is to approach specific target markets and prospective new clients who expressed interest in the past, and to promote and position the Agency to commence the process of tapping into these markets.

Structure for Operations

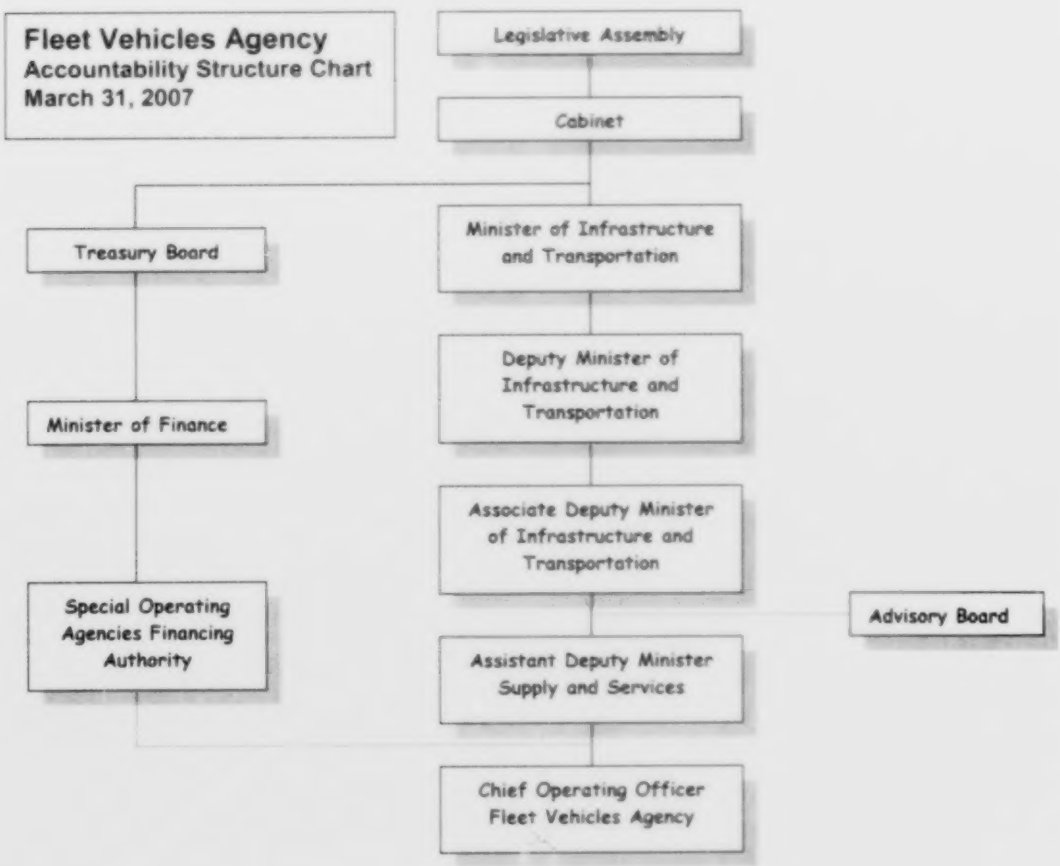
Accountability Structure

As an organization within Manitoba Infrastructure and Transportation, *FLEET* reports directly to the Assistant Deputy Minister, Supply and Services, and is held accountable to the Associate Deputy Minister, Deputy Minister, and Minister of Infrastructure and Transportation for operational and financial performance.

The Agency operates outside of the Consolidated Fund under the Special Operating Agencies Financing Authority (SOAFA), which holds title to the Agency's assets, provides financing for operations, and is responsible for its liabilities.

Governance and accountability are substantiated by *FLEET*'s compliance with its Operating Charter, Transfer Agreement, Management Agreement, applicable General Manual of Administration policies, and by The Special Operating Agencies Financing Authority Act. Financial and operational information and requirements are disseminated to and from Treasury Board through a SOA Coordinator at Treasury Board Secretariat.

The Accountability Structure Chart presented below outlines the current structure.



Advisory Board

The Advisory Board for Fleet Vehicles Agency meets as required to review the Agency's financial and operating reports, the draft Business Plan, and any proposed changes to the Agency Charter. The Board's members offer advice and direction on reporting and management issues of concern, and on short and long term strategic planning.

Members of the *FLEET* Advisory Board as of March 31, 2007, are listed below.

Members of the Advisory Board for Fleet Vehicles Agency

CHAIR	***Paul Rochon*** *Associate Deputy Minister* Manitoba Infrastructure and Transportation	
MEMBERS *Private Sector Representative*	***Position temporarily vacant***	
Client Representatives	***Fred Meier*** *Assistant Deputy Minister* Manitoba Conservation	***John Stinson*** *Assistant Deputy Minister* Manitoba Health
Ex Officio	***Tracey Danowski*** *Assistant Deputy Minister* Manitoba Infrastructure and Transportation	***Al Franchuk*** *Chief Operating Officer* Fleet Vehicles Agency
Staff Representative	***Andy Chartrand*** *Environment and Program Analyst* Fleet Vehicles Agency	

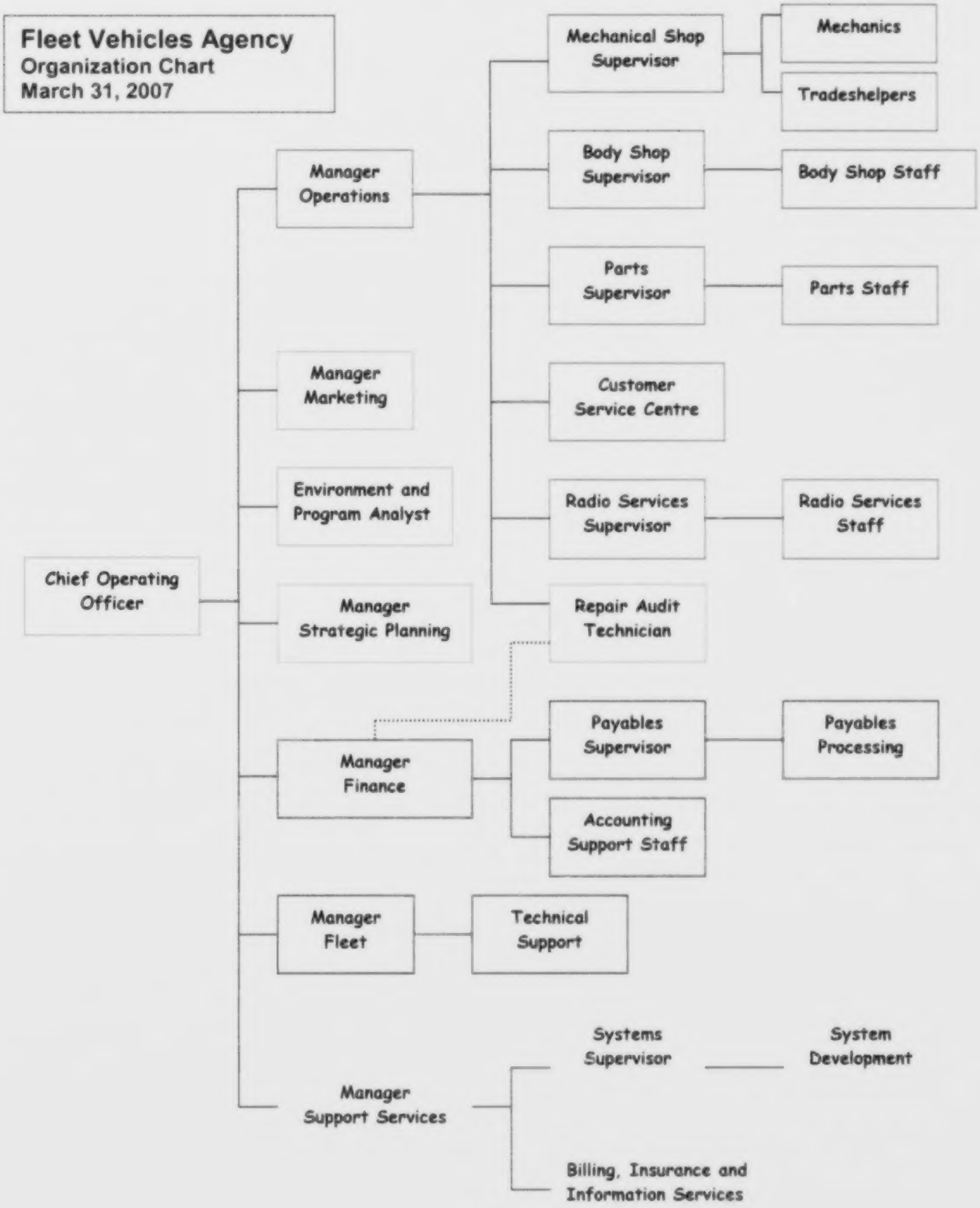
Organization Chart

FLEET's records show 63 employees as of March 31, 2007, 59 in regular positions and four in term positions. For the four indicated in term positions, all actually occupy regular positions. The majority of new employees at *FLEET* are hired as term employees for at least the first six months of their tenure. Although *FLEET*'s records indicate regular and term status, all employees are shown in the provincial payroll records as occupying Full Time Employee (FTE) numbers. Those payroll records indicate that *FLEET* has a total of 68 available FTE positions.

In January 2001, Treasury Board approved delegated authority for the Agency to manage its staff complement independently, without prior Treasury Board approval, which means that the *FLEET* management can engage incremental staff as business circumstances dictate. This delegated authority is reviewed annually by Treasury Board as a part of their review of each year's Business Plan.

Early in 2007/08, retroactive to April 1, 2007, the Manager Marketing position (together with the Marketing positions at the two other agencies in Infrastructure and Transportation) were grouped together into a separate service function that will provide marketing services to all three agencies, with the group reporting directly to the Assistant Deputy Minister, Supply and Services.

The Organization Chart presented below reflects the reporting and working relationships that have developed at *FLEET* in the years since becoming a Special Operating Agency.



Operating Objectives and Results

Each year, the management and staff at *FLEET* identify key objectives in the preparation of the Agency's annual Business Plan that are considered important to its continuing success. The categories into which these objectives fall during 2006/07 are highlighted below. The annual goals and objectives are monitored by management on a regular basis during the year through a detailed step-by-step performance framework that is called The *FLEET* Plan.

Highlights of *FLEET*'s progress in meeting the performance targets that were included as a part of its 2006/07 Business Plan are provided below within each category.

Promoting Energy-Related Opportunities

A core priority in *FLEET*'s 2006/07 Business Plan was to continue to work towards increasing awareness of the government's Sustainable Development Procurement Guidelines with customer and prospective customer vehicle coordinators and drivers. Results in meeting this objective include the following:

> Hybrid electric vehicles have been offered to clients as new or replacement vehicles in their programs for the past five to six years. As of March 31, 2007, the fleet contained 32 hybrids (two 2001 and one 2007 Toyota Prius; two 2003, four 2004, and two 2007 Honda Civics; three 2004 GM Silverado trucks; nine 2006 and six 2007 Ford Escapes; one 2007 Toyota Camry; and two 2007 GM Saturn Vue) with 29 assigned to departments, two in the short term rental pool, and one Prius serving as *FLEET*'s shuttle). As was agreed between *FLEET* and the manufacturer when the three Silverado trucks were purchased in 2004, they were sold back to General Motors in early June 2007, leaving 29 hybrid-electric vehicles in the fleet as of the date of this report.
>
> *FLEET*'s 2007 Vehicle Ordering Guide highlights vehicles that are available with E85 capabilities (vehicles that are able to run on regular gasoline, or on a combination of gasoline and up to 85% ethanol), as well as other alternate and flexible fuel models that may be ordered. The Agency's Environment and Program Analyst formally and informally meets with customers for consultation on E85s and other alternate fuelled vehicles. As of March 31, 2007, the fleet included 315 E85 vehicles—mostly vans and sedans, but also trucks, SUVs and Suburbans.
>
> There was a directive in September 2002 to all government departments to advise their drivers that they are required to purchase ethanol-blended fuel where it is reasonably available. A part of *FLEET*'s job is to monitor and report on the results of this directive. In 2006/07, there were 1,682,483 litres of E10 and 35,577 litres of E85 ethanol-blended fuel purchased for vehicles in the fleet, a decrease from the 1,919,670 litres of E10 purchased in 2006/07. E85 was not available within the province until April 2006. With total litres of fuel purchased in 2006/07 not significantly different from the total litres purchased in 2005/06, this 201,610 decrease in litres of ethanol-blended fuel purchased in 2006/07 will be brought to the attention of the Sustainable Development Implementation Committee for their consideration.

Taking Care of Business

On becoming a Special Operating Agency (SOA) in 1992, *FLEET*'s Charter outlined the Agency's duties and responsibilities in its role as a service provider to the Province.

In the years from 1992 until now, *FLEET* has primarily viewed its role as the Province's fleet consultant, a role where the Agency assists each customer in selecting the right vehicle to meet the particular requirements of the job. However, should departments wish to go against *FLEET*'s suggestions and recommendations, an attempt is made to provide them with the vehicles and equipment of their choice, together with whatever options they feel are also required.

There has been considerable discussion during the past several years as to whether *FLEET*'s role should be one that leans more towards service or more towards control.

FLEET has already taken one step towards changing the emphasis of its role. To effectively control costs associated with vehicle service, *FLEET* has to be able to enforce established policies for vehicle replacement, even if those replacement decisions are opposed by the Agency's customers. To that end, the Fleet Manager at *FLEET* advised departments in 2006/07 that vehicles identified by *FLEET* for replacement must have a replacement unit ordered or the identified vehicle must be returned to *FLEET* by December 31, 2006.

FLEET's 2006/07 Business Plan indicated that *FLEET*, in consultation with client departments, planned to determine if there were any issues pertaining to *FLEET* assuming the responsibility of a provincial fleet management solution provider, with a report on the findings to Treasury Board by September 30, 2006. In the fall of 2006, because of the impending retirement of *FLEET*'s Chief Operating Officer in January 2007, it was suggested by *FLEET* that it would perhaps be advisable to wait until a new Chief Operating Officer was in place for at least a familiarization period. The Estimates Review Minutes prepared in January 2007 now directs the Agency to return to Treasury Board by September 30, 2007, with information to consider a change in mandate for the Agency in 2008/09.

Advancing New Market Opportunities

Over the past several years, representatives from *FLEET* have attended and made presentations at conferences and tradeshows for school division organizations including the Manitoba Association of School Board Officials, Manitoba Association of School Trustees, and Manitoba Association of School Superintendents. In addition, the Agency has made presentations to, or tendered on the replacement of school buses for, several school divisions.

As with school divisions, *FLEET* has had expressions of interest from time to time from various municipalities about leasing arrangements for both new and "experienced" vehicles. Those expressions of interest primarily relate to trucks, vans and sedans, but have, on occasion, extended to fire trucks and other specialty vehicles. Representatives from *FLEET* have attended the Association of Manitoba Municipalities tradeshows for the past several years.

At the tradeshows, and as follow-up to those shows, *FLEET* has been targeting school division and municipal decision-makers to present the Agency's services and benefits to them. *FLEET* has also made sure that they are aware of the Agency's ambulance and other specialty vehicle capabilities, as well as the various services that *FLEET*'s repair facility can provide to them.

With *FLEET*'s assistance, the Radio Services staff has been marketing the FleetNet mobile radio services to emergency services operations in rural Manitoba municipalities. *FLEET* hopes to be able to piggyback on this opportunity to approach key people in the municipalities to also market *FLEET*'s products and services.

In connection with specific objectives from *FLEET*'s 2006/07 Business Plan:

> *FLEET*'s proposal to manage school buses for school divisions in Manitoba resulted in a Treasury Board directive to have *FLEET* work with the Department of Education,

Citizenship and Youth to determine if there are any safety concerns or problematic areas with existing school bus operations, and to report back.

FLEET reviewed procedures followed by Manitoba Education, Citizenship and Youth's Pupil Transportation Unit in connection with post-delivery inspections and servicing of school buses, and with the training provided to school bus drivers, and determined there are no safety concerns or problematic areas. A memorandum including procedures and findings was submitted to the Secretariat's office, and an Analytical Document was presented to Treasury Board in October 2006.

It is not likely that *FLEET* will be directly involved in the management of school buses in any of the school divisions. Education, Citizenship and Youth has suggested, however, that it will assist *FLEET* in marketing Keys™ to those school divisions that perhaps lack the technology to monitor costs and execute good fleet management practices. It is *FLEET*'s intention to follow up on this offer of assistance.

One of *FLEET*'s objectives for the past several years has been to continue pursuing opportunities to license its Keys™ fleet management system to other jurisdictions and public sector entities.

Arrangements were completed during the latter part of 2005/06 for the licensing of Keys™ to the Yukon Territory and to the Mechanical Equipment Services Branch (MES) of Manitoba Infrastructure and Transportation. The Yukon Territory went "live" with Keys™ in April 2006, and MES did the same at the end of June 2006. Training sessions were held for staff in each situation, and support for the program by *FLEET* staff continues to be provided as required.

The value of Keys™ as an asset or project management tool has also been recognized by ICT Services Manitoba and by Emergency Measures Organization. It is therefore possible that additional arrangements will be forthcoming with other departments within the Province in 2007/08.

Working Towards a *FLEET*/MES Consolidation

Starting in June 2004, the consulting firm of SNC-Lavalin Inc. conducted a review of the operations of *FLEET* and the Mechanical Equipment Services Branch (MES) of Manitoba Transportation to develop an implementation plan to consolidate the two operations (or parts thereof) into a new Special Operating Agency to deliver both heavy and light duty vehicular services. Their report and recommendations were finalized in January 2005.

In August 2005, a Submission was presented to Treasury Board from departmental management recommending that the consolidation of the two operations not proceed at this time. The Submission indicated that it is necessary for MES to rationalize its equipment and sites throughout the province over the next several years, including the possible impacts from the rationalization on employment and service in rural and northern Manitoba.

The 2007/08 Estimates Review Minutes in January 2007 directed "the Agency, in conjunction with the Department of Infrastructure and Transportation, to return to Treasury Board by September 30, 2007 with a report on the financial and regional impacts of rationalizing Mechanical Equipment Services equipment and consolidating operations into a single agency."

At the request of departmental management, both *FLEET* and MES provided summarized information in May 2007 for management's consideration in putting the required report together.

Financial Performance

The following financial review and analysis compare the actual results for the year ended March 31, 2007, to the projections for the same period and to the actual results for the year ended March 31, 2006. This review and analysis should be read in conjunction with *FLEET*'s financial statements for the year (pages 18 to 27) and the summarization of key elements from the earnings statements in Table 1.

All dollar amounts in the review and analysis are in thousands of dollars.

Operating Results

Table 1 (In thousands of dollars)	**Actual** Year ended March 31 2007	**Projected** Year ended March 31 2007	**Actual 2006/07 vs. projected 2006/07** Increase/ (decrease)	**Actual** Year ended March 31 2006	**Actual 2006/07 vs. actual 2005/06** Increase/ (decrease)
Vehicle and equipment leases	$ 32,240	$ 31,651	$ 589	$ 29,829	$ 2,411
Gain on disposal of vehicles and equipment, net	541	560	(19)	559	(18)
Interest income	39	0	39	1	38
Other revenue	4,325	4,082	243	4,637	(312)
Total revenue	**37,145**	**36,293**	**852**	**35,026**	**2,119**
Salaries	2,809	2,862	(53)	2,671	138
Vehicle and equipment operating expenses	28,346	28,692	(346)	26,912	1,434
Administrative expenses	1,698	1,707	(9)	1,689	9
Community service	45	50	(5)	43	2
Interest expense	1,177	1,225	(48)	1,116	61
Total expenses	**34,075**	**34,536**	**(461)**	**32,431**	**1,644**
Net earnings	**$ 3,070**	**$ 1,757**	**$ 1,313**	**$ 2,595**	**$ 475**

As indicated in Table 1, *FLEET* is reporting net earnings of $3,070 for the year ended March 31, 2007, compared to a projected $1,757 and an actual $2,595 for the years ended March 31, 2007 and 2006 respectively.

Vehicle and equipment lease revenue is $589 more than projected, and $2,411 more than its counterpart number from a year ago. Both the number of units leased and the distance driven by the fleet are more than projected. The significant difference in revenue reported in the 2006/07 year from that for the year ended March 31, 2006, is affected by these same two factors of units and distance, but also results from increases to the variable rate charged per kilometre, a direct cause of the increased price of fuel at the pumps.

The $1,434 increase in vehicle and equipment operating expenses during the 2006/07 year compared to the actual numbers for 2005/06 follow the same pattern as revenues

and, in many ways, are the causal factors influencing the increased revenue numbers. Amortization, fuel expense, insurance premiums, and repairs and maintenance all increased in the year over year numbers, partly the result of increased prices but mainly because of the increased number of units in the fleet.

The really significant variance when actual numbers for vehicle and equipment operating expenses are compared to projected is in fuel—a positive variance of $1,659. Although the average price per litre for fuel for the 2006/07 year was $0.9025, approximately five cents per litre higher than the comparable period in 2005/06, fuel prices have reached but not remained at the average price per litre of $1.10 used in our projections for 2006/07. The price variance of $0.1975 per litre on 10,646,000 litres purchased (for managed as well as non-managed units) resulted in a positive variance of $2,103. That variance is offset primarily by a volume variance because drivers drove 3,604,000 more kilometres than were projected for the year.

The $1,659 positive variance for fuel in the preceding point more than offsets the negative variances in amortization, insurance premiums, and repairs and maintenance, resulting in a net favourable variance of $346 when actual numbers are compared to projected for 2006/07.

It is difficult to predict where world fuel prices might actually be heading, but *FLEET*'s best guess continues to be one of significant increase in the long run, and our projections continue to reflect that position.

Financial Position

Vehicle and equipment units total 2,947 as of March 31, 2007, compared to 2,865 as of March 31, 2006. *FLEET* received 454 units (420 trucks, vans and sedans, 21 ambulances, and 13 chassis attachments) during the year, and disposed of 372 trucks, vans, sedans and ambulances. There is a real increase in units in the fleet in recent years, with the most significant part of that increase the number of ambulances. As of March 31, 2007, there are now 157 ambulances in the fleet that weren't there at all prior to the 2001/02 year.

The carrying value of *FLEET*'s capital assets at $49,425 is $1,687 more than projected and $2,078 more than it was as of March 31, 2006. For the year over year comparisons, $1,941 is the cost relating to the 21 ambulances received during the year. The remaining portion of each variance relates primarily to the cost of the increased size of the fleet, net of amortization, together with the ever-increasing carrying value of replacement trucks, vans, sedans and related equipment.

Unearned revenue of $1,698 as of March 31, 2007, relates primarily to the prepayment by departments of annual insurance billings that would otherwise be due monthly during the year.

The working capital payable position as of March 31, 2007, of $3,507 is $481 better than the projected position at that date and $144 better than at the same date one year earlier. There are a myriad of factors that influence *FLEET*'s cash position at any moment in time, including management's decisions as to when and how much should be drawn down from Loan Act Authority, when payables should be paid, and how much collection pressure should be put on customers.

Ratio Analysis

Table 2		March 31		
Ratio	Projected	Actual		
	2006/07 Year	**2007**	2006	2005
Return on total revenue	4.84%	**8.26%**	7.41%	4.07%
Return on average assets (annualized rate)	3.33%	**5.69%**	5.13%	2.67%
Return on average equity (annualized rate)	9.73%	**15.72%**	14.26%	6.99%
Debt to equity	1.93 to 1	**1.70 to 1**	1.83 to 1	1.73 to 1
Current ratio	0.35 to 1	**0.35 to 1**	0.38 to 1	0.33 to 1
Days sales in receivables	29.6 days	**23.2 days**	31.4 days	27.4 days

The three calculated rates of return in Table 2 for the year ended March 31, 2007, are higher than the actual ratios for the year ended March 31, 2006, and higher than the projected ratios for the 2006/07 year, primarily as a result of the increased net earnings reported during the 2006/07 year.

The days sales in receivables ratio continues to reflect the good job that *FLEET*'s staff is doing in staying on top of billings and collections, coupled with the trend in recent years for major customers to prepay their annual vehicle rent invoices in April to receive a 2% discount.

The debt to equity ratio continues to track *FLEET*'s leverage. The decrease in the ratio as of March 31, 2007, relates primarily to the net earnings reported in 2006/07. Although overall debt increased by $73 compared to March 31, 2006, *FLEET* was able to increase its equity position in its assets by $1,570, the amount of net earnings for the year in excess of the $1,500 paid in revenue sharing.

The current ratio at 0.35 to 1 depicts the position that *FLEET* is in throughout most of the year—asset rich, but cash poor. The ratio, of course, is strongly influenced by the current portion of long term debt, by *FLEET*'s working capital payable balance, and by the balance in unearned revenue—obligations that do not require payment in cash or are not necessarily due immediately.

Responsibility for Financial Reporting

FLEET VEHICLES AGENCY
626 Henry Avenue
Winnipeg MB R3A 1P7
Tel (204) 945-0275 Fax (204) 957-1109

Responsibility for Financial Reporting

The Fleet Vehicles Agency (*FLEET*) management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of *FLEET*'s financial position and results of operations and its cash flows in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available through May 11, 2007.

Management maintains internal controls to properly safeguard *FLEET*'s assets. These controls also provide reasonable assurance that the books and records from which financial statements are derived accurately reflect all transactions, and that established policies and procedures are followed.

FLEET's financial statements have been audited by Grant Thornton LLP, independent external auditors. The auditors' responsibility is to express an independent opinion on whether the financial statements of *FLEET* are presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their audit examination and provides their audit opinion.

On behalf of the *FLEET* management,

A. W. Franchuk

Al Franchuk
Chief Operating Officer

Albert Ogonoski
Manager, Finance

May 11, 2007

Auditors' Report

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the
Special Operating Agencies Financing Authority

We have audited the balance sheet of **Fleet Vehicles Agency, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba** as at March 31, 2007 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Winnipeg, Canada
May 11, 2007

Chartered Accountants

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Financial Statements

Statements of Earnings and Retained Earnings
Year Ended March 31

(In thousands)

		2007	2006
Revenue	Vehicle and equipment leases	**$ 32,240**	$ 29,829
	Gain on disposal of vehicles and equipment, net	**541**	559
	Interest income	**39**	1
	Other revenue (Page 27)	**4,325**	4,637
		37,145	35,026
Expenses	Salaries	**2,809**	2,671
	Vehicle and equipment operating expenses (Page 27)	**28,346**	26,912
	Administrative expenses (Page 27)	**1,698**	1,689
	Community service	**45**	43
	Interest expense	**1,177**	1,116
		34,075	32,431
Net earnings		**$ 3,070**	$ 2,595

	2007	2006
Retained earnings, beginning of year	**$ 14,459**	$ 13,364
Net earnings	**3,070**	2,595
Revenue sharing to the Consolidated Fund	**(1,500)**	(1,500)
Retained earnings, end of year	**$ 16,029**	$ 14,459

See accompanying notes to the financial statements.

Financial Statements

Balance Sheet
March 31
(In thousands)

		2007	2006
Assets	Current		
	Receivables (Note 3)	**$ 2,726**	$ 3,309
	Inventories	**195**	205
	Prepaids	**2,158**	2,000
		5,079	5,514
	Capital assets (Note 4)	**49,425**	47,347
	Receivable from the Province of Manitoba		
	Severance pay benefits (Note 5)	**270**	270
		$ 54,774	$ 53,131
Liabilities	Current		
	Working capital payable, net of cash (Note 6)	**$ 3,507**	$ 3,651
	Payables and accruals	**2,509**	2,639
	Revenue sharing to the Consolidated Fund		375
	Unearned revenue	**1,698**	1,476
	Current portion of long-term debt	**6,974**	6,442
		14,688	14,583
	Long-term debt (Note 7)	**19,334**	19,354
	Severance pay liability (Note 5)	**439**	451
		34,461	34,388
Equity	Contributed equity (Note 8)	**4,284**	4,284
	Retained earnings	**16,029**	14,459
		20,313	18,743
		$ 54,774	$ 53,131

Commitments (Note 9)

See accompanying notes to the financial statements.

Financial Statements

Statement of Cash Flows
Year Ended March 31

(In thousands)

		2007	2006
Increase (decrease) in cash and cash equivalents			
Operating	Net earnings	**$ 3,070**	$ 2,595
	Amortization	**10,135**	9,702
	Gain on disposal of vehicles and equipment, net	**(541)**	(559)
	Increase in severance pay liability	**42**	42
	Payment of severance pay benefits	**(54)**	(18)
		12,652	11,762
	Change in		
	Receivables	**583**	(712)
	Inventories	**10**	(20)
	Prepaids	**(158)**	(141)
	Payables and accruals	**(130)**	(210)
	Revenue sharing to the Consolidated Fund	**(375)**	375
	Unearned revenue	**222**	430
		12,804	11,484
Investing	Proceeds from disposal of vehicles and equipment	**2,115**	1,867
	Acquisition of vehicles and equipment for lease	**(13,689)**	(14,957)
	Acquisition of equipment for operations	**(94)**	(65)
	Acquisition of leasehold improvements	**(4)**	(114)
		(11,672)	(13,269)
Financing	Proceeds from Loan Act Authority draw downs	**7,060**	9,772
	Long-term debt repayments	**(6,548)**	(6,398)
	Revenue sharing to the Consolidated Fund	**(1,500)**	(1,500)
		(988)	1,874
Net increase in cash and cash equivalents		**144**	89
Working capital payable, net of cash and cash equivalents			
	Beginning of year	**(3,651)**	(3,740)
	End of year	**$ (3,507)**	$ (3,651)

See accompanying notes to the financial statements.

Financial Statements

Notes to the Financial Statements
March 31, 2007
(In thousands)

1. Nature of organization

In 1934, Fleet Vehicles was created as a branch of the Manitoba Provincial Government to provide a centralized fleet management program. It was established to achieve economies of scale and to lower overall fleet costs to government.

Effective April 1, 1992, the Fleet Vehicles branch was designated as a Special Operating Agency under The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M., and operates under a charter approved by the Lieutenant Governor in Council.

Effective April 1, 2003, the Radio Services Program within the Desktop, Telecommunications and Network Services Branch of the Department of Transportation and Government Services was transferred to the Agency.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

A 1992 Management Agreement between SOAFA and the then Minister of Government Services assigns responsibility to the Agency to manage and account for the Agency-related assets and operations on behalf of SOAFA.

Fleet Vehicles Agency currently is a part of Manitoba Infrastructure and Transportation under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Associate Deputy Minister, the Deputy Minister and the Minister.

Fleet Vehicles Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

Fleet Vehicles Agency is economically dependent on The Government of Manitoba, as it derives most of its revenue and all of its capital financing requirements from the Province.

2. Significant accounting policies

Basis of reporting

The financial statements of the Agency are presented in accordance with Canadian generally accepted accounting principles.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and short term investments with original maturities of six months or less. Bank borrowings are considered to be financing activities.

Financial Statements

Notes to the Financial Statements
March 31, 2007
(In thousands)

2. ***Significant accounting policies*** (continued)

Inventories

Inventories are valued at the lower of cost and market value. Cost is determined on a weighted average basis.

Capital assets

Rates and bases of amortization applied to write off the cost less estimated salvage value of capital assets over their estimated lives are as follows:

Vehicles	30%, declining balance
Vehicles and equipment (signed lease agreement)	straight line over term of lease
Office and shop equipment	20%, declining balance
Computer software and equipment	20%, straight line
Leasehold improvements	10%, straight line

Pension benefits

Employees of Fleet Vehicles Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board. The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the provincial government, including the Agency, through the Civil Service Superannuation Fund.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred the pension liability for its employees to the Province. Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for the year ended March 31, 2007, was $126 (2006: $128). Under this agreement, the Agency has no further pension liability.

Use of estimates

In preparing the Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Financial instruments

The Agency's financial instruments consist of accounts receivable, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

Revenue recognition

Fixed rate lease revenue is recognized on a straight-line basis over the term of the lease. Variable rate lease revenue is recognized monthly based on equipment usage. Service revenue is recognized when the services have been performed.

Financial Statements

Notes to the Financial Statements
March 31, 2007
(In thousands)

3. Receivables

	2007	2006
Trade	**$ 1,099**	$ 1,784
Accrued trade	**1,161**	1,105
Insurance agency rebate receivable	**466**	420
	$ 2,726	$ 3,309

4. Capital assets

	Cost	Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Vehicles and equipment for lease	$ 90,417	$ 41,479	**$ 48,938**	$ 46,786
Office, shop and computer equipment	1,341	1,082	**259**	288
Leasehold improvements	707	479	**228**	273
	$ 92,465	$ 43,040	**$ 49,425**	$ 47,347

5. Severance pay liability

Effective April 1, 1998, the Agency commenced recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the recorded amounts when actual experience is different from that expected and/or there are changes in actuarial assumptions used. The resulting actuarial gains or losses, when material in amount, are amortized over the expected average remaining service life of the related employee group.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees through specific dates. That responsibility is currently reflected by a $194 receivable from the Province for the employees at the Agency as of March 31, 1998, together with a $76 receivable from the Province for the employees at Radio Services as of March 31, 2003, who are also now with the Agency.

The receivable from the Province will only be collected, in whole or in part, in the event there is a cash shortfall in the Agency. It is probable, therefore, that collection will only occur on the dissolution of the Agency.

An actuarial valuation report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's liability is recalculated annually, with payments to retiring employees no longer with the Agency or the Province charged against the liability. The Agency's actuarially determined net liability for accounting purposes as of March 31, 2007, was $439 (2006: $451).

6. Working capital payable

The Agency has an authorized line of working capital advances of $4,000, $3,550 of which was used as of March 31, 2007 (2006: $3,704).

Financial Statements

Notes to the Financial Statements
March 31, 2007
(In thousands)

7. Long-term debt

By virtue of the Management Agreement, the Agency is responsible for the repayment of debts assumed by the Special Operating Agencies Financing Authority (SOAFA) on its behalf. SOAFA holds the debt instruments listed in this Note on behalf of Fleet Vehicles Agency.

Loan Act Authority long-term debt is repayable in semi-annual instalments of principal and interest, as follows:

			Principal Balance Owing March 31	
Interest Rate	Instalment Amount	Maturity Date	**2007**	2006
5 3/8%	121	September 30, 2006	**$**	$ 118
4 3/4%	243	September 30, 2006		237
5 5/8%	174	March 31, 2007		334
4 1/4%	179	September 30, 2007	**176**	516
4 3/4%	397	March 31, 2008	**767**	1,499
6.425%	146	March 31, 2009	**540**	785
3 5/8%	149	March 31, 2009	**571**	842
3 1/2%	259	March 31, 2009	**991**	1,462
5 1/4%	159	September 30, 2009	**738**	1,007
5 5/8%	134	September 30, 2009	**618**	843
4 1/8%	56	September 30, 2009	**263**	361
4%	167	March 31, 2010	**935**	1,223
4 3/8%	438	March 31, 2010	**2,440**	3,186
5 1/8%	123	September 30, 2010	**776**	974
4 3/4%	227	March 31, 2011	**1,637**	2,000
4 3/4%	451	March 31, 2011	**3,250**	3,972
4 7/8%	137	September 30, 2011	**1,093**	1,305
4 3/4%	102	September 30, 2001	**819**	
4 5/8%	475	March 31, 2012	**4,200**	
4 3/4%	137	September 30, 2012	**1,308**	1,512
4.05%	140	September 30, 2013	**1,589**	1,798
4 7/8%	148	March 31, 2015	**1,935**	
4 1/8%	117	September 30, 2015	**1,662**	1,822
Total principal owing as of March 31			**26,308**	25,796
Amount due within one year			**6,974**	6,442
Long-term debt as of March 31			**$ 19,334**	$ 19,354

Financial Statements

Notes to the Financial Statements
March 31, 2007
(in thousands)

7. *Long-term debt* (continued)

No loan authority remained available as of March 31, 2006. Loan authority availability of $8,300 for 2006/07 was approved during June 2006 in The Loan Act, 2006. Loan authority amounts were drawn down at various times during the 2006/07 year, with $7,060 in availability utilized as of March 31, 2007.

As of March 31, 2007, principal repayments in each of the next five years are as follows:

2008	$ 6,974
2009	6,312
2010	5,136
2011	3,671
2012	2,108

8. *Contributed equity*

The Special Operating Agencies Financing Authority (SOAFA) and The Government of Manitoba entered into a Transfer Agreement in connection with the transfer from the Government to SOAFA of assets valued at $12,353 required for the continuing operations of Fleet Vehicles Agency as of March 31, 1992. The Agency has repaid the debt portion in the amount of $8,235 (2/3 of the value of the assets) and has recorded the balance of $4,118 (1/3 of the value of the assets) as the Government's equity in SOAFA relating to the Agency's operations.

The Agency's contributed equity was increased by $166 as of April 1, 2003, with the transfer of the net assets of Radio Services to the Agency.

9. *Commitments*

(a) Pursuant to a Memorandum of Understanding dated May 31, 1996, the Agency entered into a lease agreement with The Government of Manitoba for the rental of the facilities at 626 Henry Avenue, Winnipeg, Manitoba. Occupancy charges for each fiscal year including 2007/08 are established annually based on the approved budget for the Department of Infrastructure and Transportation. Occupancy charges for 2007/08 are estimated at $451 for the year, to be paid in quarterly instalments during 2007/08.

(b) The Agency's approved 2007/08 Business Plan calls for $1,500 in revenue sharing to be paid in quarterly instalments to the Consolidated Fund during 2007/08.

Financial Statements

Notes to the Financial Statements
March 31, 2007
(In thousands)

10. Requirements of The Public Sector Compensation Disclosure Act

Pursuant to Section 2(1) of the Act, the following employees of Fleet Vehicles Agency received compensation, directly or indirectly, of $50 or more in the fiscal year ended March 31.

Name	Position	2007	2006
Kathryn Bernhardt	Manager, Support Services	$ 58	$ 59
Derek Boutang	Systems Analyst	88	67
Andy Chartrand	Environment and Program Analyst	53	53
Donald Chesney	Manager, Fleet	70	70
Dennis Ducharme	Chief Operating Officer	125	91
James Ellison	Radio Services Technician		59
Grant Fraser	Mechanical Shop Supervisor	55	56
Barbara Funk	Payables Supervisor	68	
Richard Heck	Systems Analyst	61	57
Jordan Janisse	Systems Supervisor	78	77
Kevin Kilbrei	Manager, Marketing	60	61
David Kroeker	Programmer Analyst	65	65
Vladimair Lachowsky	Radio Services Technician	55	57
Keith Leganchuk	Radio Services Technician	55	
Robert Nolin	Body Shop Supervisor	52	54
Albert Ogonoski	Manager, Finance	67	68
Allan Pawluk	Radio Services Technician		54
Grant Recknell	Radio Services Supervisor	59	
William Reynolds	Manager, Strategic Planning	66	67
Guy Sinclair	Manager, Operations	82	80
Sean Stephen	Radio Services Supervisor		56

Financial Statements

Schedule of Other Revenue and Expenses
Year Ended March 31

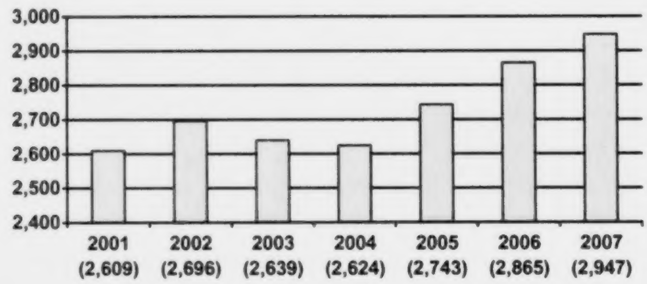
(In thousands)

		2007	2006
Other revenue	Autopac service revenue	**$ 518**	$ 509
	Garage regular service	**607**	1,055
	Insurance premium rebates	**959**	879
	Other, including fuel billings for managed vehicles that are not owned	**798**	741
	Radio Services	**1,443**	1,453
		$ 4,325	$ 4,637
Vehicle and equipment operating expenses	Amortization	**$ 9,962**	$ 9,520
	Fuel	**9,608**	9,046
	Insurance premiums	**3,792**	3,472
	Licenses	**132**	136
	Repairs and maintenance	**4,852**	4,738
		$ 28,346	$ 26,912
Administrative expenses	Amortization	**$ 173**	$ 182
	Fleet management information system	**174**	176
	Human resource overhead	**588**	531
	Occupancy costs	**492**	505
	Other costs	**170**	184
	SOAFA charges	**3**	3
	Supplies and materials	**50**	63
	Telephone and communication	**48**	45
		$ 1,698	$ 1,689

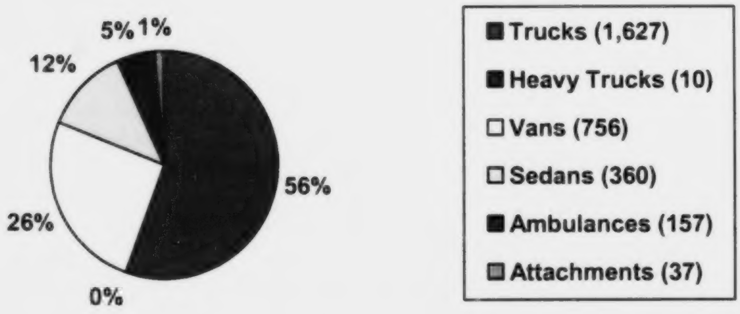
FLEET Facts

Year Ended March 31	Projected 2006/07	**Actual 2006/07**	Actual 2005/06
Distance			
Total kilometres driven (000s)	55,000	**58,604**	58,506
Revenue			
Total lease revenue (000s)	$ 31,651	**$ 32,240**	$ 29,829
All other revenue (000s)	$ 4,642	**$ 4,905**	$ 5,197
Total revenue (000s)	$ 36,293	**$ 37,145**	$ 35,026
Average lease rate per kilometre	$ 0.5755	**$ 0.5501**	$ 0.5098
Fleet Composition			
Trucks, vans and sedans - full fleet management services	2,181	**2,432**	2,406
Trucks, vans and sedans - dry (no fleet management services)	275	**321**	296
Ambulances – full fleet management services	160	**157**	139
Chassis attachments	15	**37**	24
Number of units in the fleet	2,631	**2,947**	2,865
Acquisitions – Vehicles and equipment, other than ambulances	335	**433**	456
Acquisitions - Ambulances	20	**21**	20
Average acquisition cost - Trucks, vans and sedans (000s)	$ 29.3	**$ 26.9**	$ 28.7
Average acquisition cost - Ambulances (000s)	$ 98.0	**$ 97.1**	$ 94.5
Disposals - Trucks, vans, sedans and ambulances	387	**372**	354
Average disposal proceeds (000s)	$ 5.8	**$ 5.7**	$ 5.3
Gain on disposal of vehicles and equipment (000s)	$ 560	**$ 541**	$ 559
Average vehicle age (in years)	3.8	**3.7**	3.7
Fuel Consumption			
Litres for full fleet management services vehicles (000s)	9,779	**9,970**	10,087
Price per litre	$ 1.1000	**$ 0.9025**	$ 0.8485
Litres consumed per 100 kilometres	17.78	**17.01**	17.24

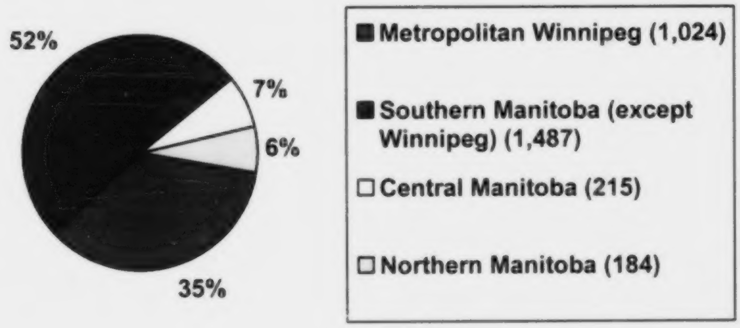
Vehicles and Related Equipment as of March 31 *(in units)*



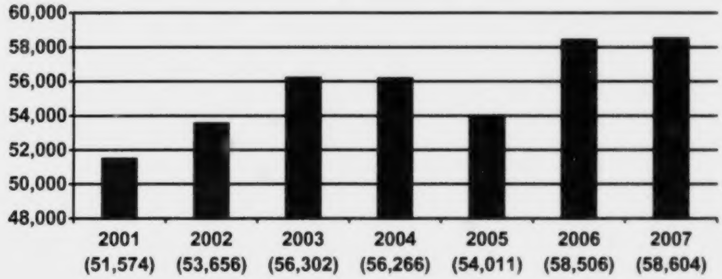
Vehicle and Equipment Type as of March 31, 2007 *(in units)*



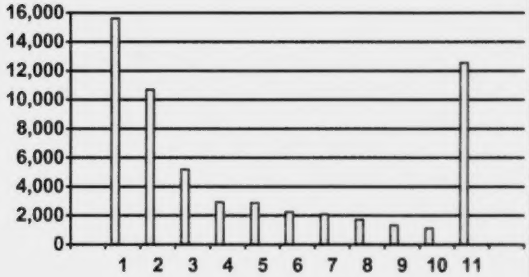
Distribution of Vehicles as of March 31, 2007 *(as designated by MPI regions)*
(the location of the 37 equipment attachments is excluded from these numbers)



Fleet Distance for the Year Ended March 31 *(in thousands of kilometres)*



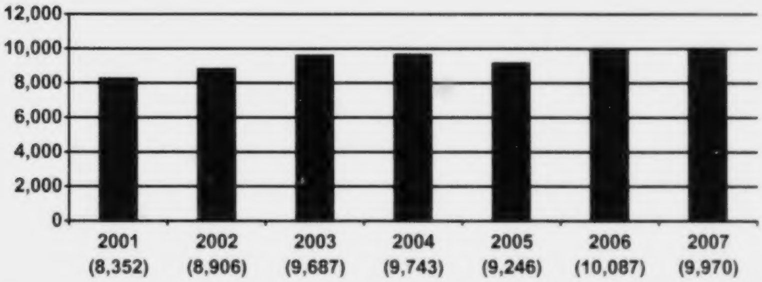
Distance by Department in 2006/07
(*in thousands of kilometres*)



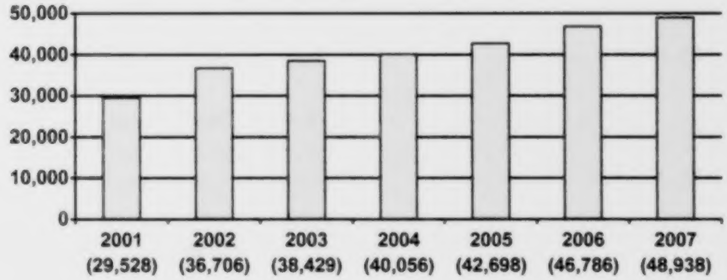
Distance by Department Legend
(*in thousands of kilometres*)

1.	Infrastructure and Transportation	15,670
2.	Conservation	10,743
3.	Health – Emergency Services	5,206
4.	Water Stewardship	2,939
5.	Justice	2,895
6.	Family Services and Housing	2,260
7.	Manitoba Lotteries Corporation	2,096
8.	Agriculture, Food and Rural Initiatives	1,722
9.	Intergovernmental Affairs and Trade	1,358
10.	Housing Authority	1,136
11.	Others (89 other customers)	12,579
	Total distance in 2006/07	58,604

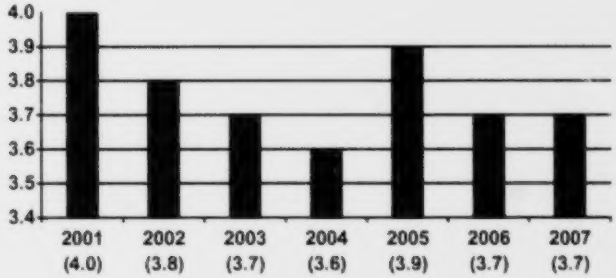
Fuel Consumption for Full Fleet Management Services Vehicles *(in thousands of litres)*



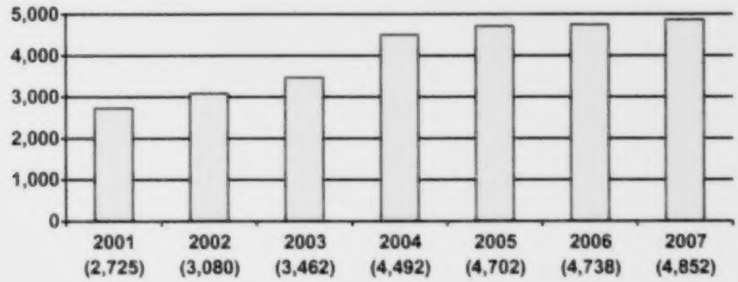
Carrying Value of Vehicles and Equipment for Lease (Cost less Accumulated Amortization) as of March 31 *(in thousands of dollars)*



Average Vehicle Age *(in years)*



Vehicle and Equipment Repairs and Maintenance Costs *(in thousands of dollars)*
(including Radio Services parts and repairs starting in 2004)



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